

Message Text

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ORIGIN EB-11

INFO OCT-01 EUR-25 EA-11 ISO-00 SS-20 NSC-07 AEC-11 AID-20

CEA-02 CIAE-00 CIEP-02 COME-00 DODE-00 FEA-02 FPC-01

H-03 INR-10 INT-08 L-03 NSAE-00 OMB-01 PM-07 RSC-01

SAM-01 SCI-06 SP-03 STR-08 TRSE-00 FRB-02 IO-14

NEA-10 OPIC-12 LAB-06 SIL-01 SWF-02 PA-04 PRS-01

OIC-04 /220 R

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NSC - MR. COOPER

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FM SECSTATE WASHDC

TO AMEMBASSY LONDON PRIORITY

INFO AMEMBASSY TOKYO PRIORITY

AMEMBASSY COPENHAGEN

USMISSION OECD PARIS

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C O N F I D E N T I A L STATE 082934

TOTAS 16

E.O. 11652: GDS--DECLAS. DEC. 31, 1981

TAGS: ENRG

SUBJECT: ECG - PRODUCER/CONSUMER RELATIONS

1. FOLLOWING ARE US COMMENTS ON PARAGRAPHS 7 AND 8 OF
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UK PAPER ON "RELATIONS WITH PRODUCERS, OTHER CONSUMERS

AND DEVELOPING COUNTRIES" CIRCULATED IN ADVANCE OF
APRIL 3-4 ECG MEETING. (LONDON 3970) COMMENS ARE
KEYED TO PARAGRAPH NUMBERS.

(7A.) - WHILE THE US RECOGNIZES NEED TO DISCUSS THE
FEASIBILITY AND UTILITY OF THE COMMODITY AGREEMENT
APPROACH, WE WOULD SUGGEST THAT THIS DISCUSSION TAKE
ACCOUNT OF FORECAST DEVELOPMENTS IN THE INTERNATIONAL
PETROLEUM MARKET. AS WE INDICATED AT THE LAST ECG MEETING,
OUR ANALYSIS OF MARKET DYNAMICS LEADS US TO BELIEVE
THAT OVER THE NEXT YEAR WE MAY WELL SEE A SIGNIFICANT
SURPLUS OF OIL SUPPLIES DEVELOPING. NEW PRODUCTION IN
ALASKA, THE NORTH SEA AND ELSEWHERE IN THE MEDIUM
RUN, COMBINED WITH CONSERVATION MEASURES AND RESTRAINTS
ON DEMAND INDUCED BY HIGHER PRICES, SHOULD PRODUCE DOWNWARD
PRICE PRESSURES.

A COMMODITY-TYPE AGREEMENT ON OTHER HAND COULD RESULT IN
LOCKING CONSUMERS INTO CURRENT HIGH PRICE LEVELS. THE
MEETINGS AT THE OECD ON THE LONG AND SHORT TERM ENERGY
FORECASTS FOR THE OECD AREA AND THE MAY 1 MEETING PRIOR

TO THE ECG ON THE PETROLEUM MARKET OUTLOOK SHOULD PROVIDE
A CLEARER BASIS FOR JUDGMENT ON THIS PROBLEM.

(7B.) - WE ASSUME WHAT IS MEANT HERE ARE THE VARIOUS
IDEAS WHICH HAVE BEEN PUT FORWARD FOR OBJECTIVELY
DETERMINING OIL PRICES SUCH AS, COST OF PRODUCTION OF
ALTERNATIVE ENERGY SOURCES OR BASING OIL PRICES ON SOME
REPRESENTATIVE INDEX OF PRICES FOR EXPORTS OF RAW
MATERIALS OR WESTERN COMMODITIES AND CAPITAL GOODS.
WE BELIEVE IT WOULD BE USEFUL TO EXPLORE THESE IDEAS
FURTHER IN THE ECG.

IT IS CLEAR THAT THE COST OF PRODUCING SUBSTITUTE ENERGY
FORMS WILL BE A FACTOR IN DETERMINING THE LONG-RUN
PRICE OF OIL. WE ALSO BELIEVE THIS COST IS SUBSTANTIALLY
LOWER THAN CURRENT OIL PRICES.

WE BELIEVE IT WOULD BE USEFUL TO VENTILATE THESE POINTS
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WITH PRODUCERS.

(7C.) - WE SEE THE FRAMEWORK OUTLINED UNDER THIS POINT
AS THE MOST LIKELY SCENARIO FOR FUTURE PRODUCER-CONSUMER
MEETINGS. OUR ANALYSIS OF THE FUTURE MARKET FOR
PETROLEUM LEADS US TO BELIEVE THAT AT LEAST SOME
PRODUCERS MAY HAVE A STRONG ECONOMIC INTEREST IN TRYING
TO MAXIMIZE LONG-TERM REVENUES BY REDUCING PRICES NOW.

WE NEED TO ENCOURAGE THE MAJOR OIL EXPORTERS TO REFLECT THESE INTERESTS IN CURRENT PRICE LEVELS. IN DISCUSSIONS WITH PRODUCERS WE NEED TO TRY TO PERSUADE THEM OF THE LIKELY EFFECT THAT CONTINUATION OF CURRENT HIGH PRICES COULD HAVE ON THE WORLD ECONOMY AND WHAT THIS WOULD MEAN TO THE PRODUCERS. AT THE SAME TIME, COOPERATIVE CONSUMER ACTION ON AN INTEGRATED EMERGENCY APPROACH AND ON LONGER TERM MEASURES TO INCREASE DOMESTIC PRODUCTION AND RESTRAIN DEMAND ARE NECESSARY TO PROVIDE A CREDIBLE ALTERNATIVE TO CONTINUED RELIANCE ON IMPORTED OIL FROM THE MAJOR PRODUCING COUNTRIES.

(7D.) - THE US BELIEVES DISCUSSION OF THE POSSIBILITY OF ESTABLISHING A NEW INTERNATIONAL INSTITUTION SHOULD CONCENTRATE ON AN EVALUATION OF THE PURPOSE IT COULD SERVE. WE ARE NOT CONVINCED AT PRESENT THAT A PERSUASIVE CASE HAS BEEN MADE FOR THE UTILITY OF A NEW ORGANIZATION AND DOUBT THAT IT COULD SERVE ANY USEFUL PURPOSE THAT IS NOT ALREADY BEING DONE.

(8.) - AS WE INDICATED AT THE LAST ECG MEETING, WE BELIEVE THE SUBJECTS DESCRIBED IN THIS PARAGRAPH WOULD ARISE NATURALLY IN DISCUSSIONS WITH PRODUCERS. WE HAVE NO OTHER COMMENT ON THIS SECTION.

2. EMBASSY REQUESTED TO PASS THESE COMMENTS TO LEONARD WILLIAMS (DEPARTMENT OF ENERGY). KISSINGER

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